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BUSINESS/FINANCIAL DESK

SMALL BUSINESS; Student's Start-Up Draws Attention and \$13 Million

By ELLEN ROSEN (NYT) 1335 words

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It is not easy capturing the attention of Jim Breyer, one of Silicon Valley's leading venture capitalists. But Mark Zuckerberg, a 21-year-old Harvard student, managed to do it with a Web site that has attracted 2.8 million registered users on more than 800 campuses since it began in February 2004.

Mr. Breyer was so taken with Mr. Zuckerberg's company, thefacebook.com, which creates online interactive college-student networks, that his firm, Accel Partners, plans to announce a \$13 million investment in the start-up today.

"It is a business that has seen tremendous underlying, organic growth and the team itself is intellectually honest and breathtakingly brilliant in terms of understanding the college student experience," Mr. Breyer said.

Five years after the Internet bubble burst, a new generation of Web start-ups is quietly attracting investment capital. Thefacebook.com typifies the breed: a company that is built on substance rather than high expectations. While \$13 million might seem paltry next to the free-flowing sums of the late 1990's, Mr. Breyer said it was a "significant investment" from Accel's new \$400 million fund.

"The first model was to raise a lot of venture money early on, even before we understood the consumer experience and knew the risks," Mr. Breyer said. Today, by contrast, his firm backs companies "like thefacebook, which have built a deep relationship again and again with the customer." Social sites, as well as those involving music and video, are among those that are particularly attractive right now, he said.

Mr. Zuckerberg and his two roommates, Dustin Moskovitz and Chris Hughes, started the venture in February 2004 as an online directory of all Harvard's students, a big step up from the photo books of incoming freshmen the school produced annually.

The premise -- and the process -- were both simple: students wanting to join needed a current ".edu" e-mail address to register without fees. They could then supply a digital photo and create a profile of themselves.

They could view one another's profiles and, as the site spread to other campuses, those at other schools if they were accepted as a "friend." Think of individual college directories connected by -- at most -- six degrees of separation.

(Thefacebook.com is not the first foray into a college site for Mr. Zuckerberg, a computer-sciences-turned-psychology major. As a prank in November 2003, he set up facemash.com, a site that "popped up two students' photos and asked users to choose who was more attractive," he said. Harvard officials were not amused and they put him on probation. But the university's administration has not voiced any complaints with thefacebook.com, he said.)

The three friends designed their site, Mr. Zuckerberg said, "in such a way that if it was good, it could be introduced at other schools." It was an instant hit, and within one month Columbia, Stanford and Yale students could log on to sites at their schools. By June 2004, sites were available for about 30 campuses and 150,000 students were registered. (The colleges and universities themselves do not have any editorial or financial involvement.)

Realizing they were onto something with big potential, Mr. Zuckerberg and Mr. Moskovitz decided to spend last summer in Silicon Valley, where they had friends working as interns at established companies like Google. (Mr. Hughes joined them for the summer, but returned to Harvard to act as the company's media spokesman.)

The two intend to return to Harvard in the fall and nurture their company slowly, Mr. Zuckerberg said, adding schools to their roster slowly "because we wanted to create safe communities" and make sure the system could handle the increased use.

But events overtook them. Before heading west, Mr. Zuckerberg arranged a dinner with Sean Parker, the founder of Napster, to talk about his Web site, which had swept through Stanford University in a number of weeks. A few weeks later, the two bumped into each other on a street in Palo Alto, Calif. Before long, Mr. Parker, who is also a co-founder of Plaxo, an online service that updates e-mail address books, began informally advising the company. By the end of the summer, he became president. And he introduced Mr. Zuckerberg to Peter Thiel, a venture capitalist and founder of PayPal, the online payment service acquired by eBay in 2002.

Mr. Thiel invested \$500,000 as seed money, the first major infusion of cash into thefacebook.com, Mr. Zuckerberg said. More important, his connection gave it the imprimatur of an up-and-coming company. Soon, other investors came calling.

But the one who impressed them most was the team from Accel, said Mr. Zuckerberg, who is thefacebook.com's chief executive. At 43, Mr. Breyer, the firm's managing partner, is a seasoned investor who serves on the boards of Wal-Mart Stores and Real Networks.

Mr. Breyer has taken a seat on the company's board, joining Mr. Zuckerberg, Mr. Parker and Mr. Thiel. He would not disclose the size of the stake Accel will take in thefacebook.com. And while he envisions that the company will one day go public, he said there was "no significant timetable."

Mr. Zuckerberg and Mr. Parker decline to disclose revenue, which comes solely from advertising, though they say the company is profitable. With the infusion of outside cash, they are also able to pay themselves salaries and rent an office in Palo Alto. They have not determined when they will return to Harvard, where they remain on leave.

The site is becoming ubiquitous at the 840 colleges where it is available. Laura Hofmann, who just finished her sophomore year at Loyola College in Baltimore, said that when thefacebook.com was introduced at her school in the fall, "everyone was addicted; at first, I was on five times a day."

Ms. Hofmann's sister Kate, who graduated this week from Tufts University in Medford, Mass., missed the site's early days because she was studying abroad for a semester. Upon her return, she acknowledged that the site was a "huge procrastination tool." But now, she said, it is most useful as a means of keeping up with alumni.

How to retain alumni as users is "an interesting question for us," Mr. Parker said. "We're trying to figure out what functionality they want once they graduate. Are they looking for jobs? Are they trying to date?"

But first, with the help of the new financing, the company wants to saturate the approximately 1,400 four-year colleges nationwide.

Running thefacebook.com has not been one success after another. A competitor, ConnectU, has sued the company in a federal district court in Massachusetts, asserting that Mr. Zuckerberg took its idea. Mr. Zuckerberg denies the allegation, saying he helped out at ConnectU for only a few weeks in the fall of 2003, when, he says, it was more of a dating service than a directory. He says his company has counterclaimed, asserting defamation. Calls and e-mails messages to ConnectU were not returned.

While the breakout success of thefacebook.com is unusual, those in Silicon Valley say there is plenty of room for other Internet companies. According to Allen Wiener, an analyst at the research firm Gartner Inc., a successful company needs to have a "clearly articulated product and service," that will "save time or money, offer something someone can't find somewhere else and fulfill a greed or lust factor." The service offered should be "compelling," adds Mr. Thiel, and one which "draws in new users to get organic grass-roots growth."

Difficult? Maybe, but Mr. Thiel predicts a lot of young entrepreneurs will make the grade. "We are nowhere near the end of the innovation arch," he said.

Photo: Thefacebook.com creates online student networks. Mark Zuckerberg, left, the company's chief, with Sean Parker, Napster's founder, and two thefacebook staff members, Andrew McCollum and Dustin Moskovitz. (Photo by Jim Wilson/The New York Times)

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